

**LEAVENWORTH COUNTY RURAL
WATER DISTRICT NO. 10**
Linwood, Kansas

FINANCIAL STATEMENTS
For the year ended December 31, 2014

And

INDEPENDENT AUDITORS' REPORT

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RURAL WATER DISTRICT NO. 10

Leavenworth County, Kansas

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Karlin & Long, LLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Board of Directors
Rural Water District No. 10,
Leavenworth County, Kansas
Topeka, Kansas 66610

We have audited the accompanying financial statements of the business-type activities of the Rural Water District No. 10 as of and for the year ended December 31, 2014, which comprise the District's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Rural Water District No. 10, Leavenworth County, Kansas, as of December 31, 2014, and the respective changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

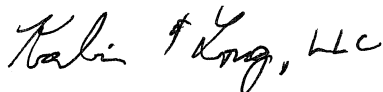
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Rural Water District No. 10, Leavenworth County, Kansas financial statements as a whole. The Schedule of Insurance in Force is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Karlin & Long, LLC
Certified Public Accountants
Lenexa, KS
March 15, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion of the financial performance of Rural Water District No. 10, Leavenworth County Kansas (the District), provides an overview of the financial activities of the District for the fiscal year ended December 31, 2014. This information is presented in conjunction with the audited financial statements that follow this section.

During fiscal year 2003, the District adopted the financial reporting format required by the Governmental Accounting Standards Board's Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

Financial Highlights

The District's net assets increased by \$14,295. This was principally due to operating income, sales of benefit units, and other fees.

The District realized loss from operations of \$35,641, after recognizing depreciation and amortization expense of \$59,411.

Total cash on hand at December 31, 2014 was \$57,685 which was an increase of \$27,597 over the cash on hand on December 31, 2013.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the District.

The District's basic financial statements comprise two components: 1) basic financial statements, and 2) notes to financial statements.

Basic Financial Statements

The financial statements present the financial picture of the District from the economic resource measurement focus using the accrual basis of accounting.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information showing how the District's net position has changed over the two most recent fiscal years.

All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing related to cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Notes to basic financial statements.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to basic financial statements can be found on pages 9-16 of this report.

The District's net position reflects its investment in capital assets (e.g., land, buildings, infrastructure, and equipment); less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its participating members (customers); consequently, these assets are not available for future spending.

The District's restricted net position represents the amount of assets that are reserved for the purpose of a bond reserve requirement, consequently, these assets are not available for future spending.

The unrestricted net position may be used to meet the District's ongoing obligations to its customers and creditors.

Capital Assets

The District's investment in capital assets for its business-type activities as of December 31, 2014 was \$1,040,735 (net of accumulated depreciation). This includes land, buildings, infrastructure and facilities and equipment.

Additional information on the District's capital assets can be found in Note 6 on pages 14-15 of this report.

Debt Administration

At the end of fiscal year 2014, the District had long term debt outstanding of \$ 13,877, of which \$7,711 is the current portion.

Additional information on the districts long term debt can be found in Note 7 to the basic financial statements

Economic Factors and Next Year's Budget and Rates

The Annual Budget outlines the staff's plan to carry out the District's mission of providing a safe and dependable supply of potable water for the public health and safety of Leavenworth County.

As a product of an ongoing examination of how the District does its business, our budget seeks to assure that we have the necessary funds to accomplish our objectives, while insuring that our rates and charges remain as competitive as possible.

Continued growth within the District is anticipated. The slow growth in our area is a factor that could have an impact upon our operations, and the Board of Directors continues to monitor and participate in that process.

Requests for Information

This financial report is designed to provide citizens, customers, investors, and creditors with a general overview of the District's finances, and to demonstrate the District's accountability for the money that it receives. If you have any questions about this report or desire any additional information, contact the general manager at 13262 222nd Road, Linwood, KS 66052, or phone (913) 723-3452.

LEAVENWORTH COUNTY RURAL WATER DISTRICT NO. 10

Statement of Net Position
As of December 31, 2014

ASSETS		2014
Current Assets		
Cash and cash equivalents	\$	57,685
Certificates of deposit		25,481
Account receivable		17,817
Prepaid insurance		2,505
Total current assets		103,488
Certificates of deposit, noncurrent portion		467,752
Property, plant, and equipment, net		1,040,735
Total Assets	\$	1,611,975

LIABILITIES AND NET POSITION

Current Liabilities		
Current portion of long-term debt	\$	7,711
Accounts payable		5,581
Accrued interest		426
Accrued expenses		1,387
Total current liabilities		15,105
Long-term debt, less current portion		6,166
Net position		
Invested in capital, net of debt		1,026,858
Unrestricted		563,846
		1,590,704
Total liabilities and net position	\$	1,611,975

The notes to the financial statements are an integral part of this statement.

LEAVENWORTH COUNTY RURAL WATER DISTRICT NO. 10

Statement of Revenues, Expenses and Changes in Net Position
For the year ended December 31, 2014

	<u>2014</u>
Water sales	\$ 209,469
Cost of water	<u>87,975</u>
Gross profit from water sales	<u>121,494</u>
Operating Expenses	
Salaries and payroll taxes	26,316
Utilities and telephone	1,525
Office expenses	4,660
Repairs, maintenance and contract labor	46,426
Professional fees	2,750
Rent	1,450
Dues and memberships	846
Service fees and permits	82
Testing	565
Entertainment	97
Insurance	4,387
Mileage and miscellaneous	3,965
Sales tax and water fees	1,278
Locates	161
Continuing education	895
Meter installation	2,321
Depreciation and amortization	<u>59,411</u>
	<u>157,135</u>
Loss from operations	<u>(35,641)</u>
Nonoperating Revenues (Expense)	
Interest income	4,223
Interest expense	(1,487)
Reimbursements and other fees	<u>35,200</u>
	<u>37,936</u>
Income before capital contributions	2,295
Benefit Units and Aid in Construction	<u>12,000</u>
Change in Net Position	14,295
Net Position, Beginning of Year	1,576,409
Net Position, End of Year	\$ <u><u>1,590,704</u></u>

The notes to the financial statements are an integral part of this statement.

LEAVENWORTH COUNTY RURAL WATER DISTRICT NO. 10

Statement of Cash Flows
For the year ended December 31, 2014

	<u>2014</u>
Cash Flows from Operating Activities	
Cash received from members for water	\$ 208,139
Cash payments to suppliers for goods and services	(160,785)
Cash payments to employees for services	<u>(26,316)</u>
Net Cash Provided By Operating Activities	<u>21,038</u>
Cash Flows from Capital and Related Financing Activities	
Proceeds from sale of benefit units and aid in construction	12,000
Payments on long-term debt	(7,344)
Interest paid	(1,487)
Purchase of property and equipment	<u>(59,583)</u>
Net Cash Provided By Capital and Related Financing Activities	<u>(56,414)</u>
Cash Flows from Noncapital Financing Activities	
Other	<u>35,200</u>
Cash Flows from Investing Activities	
Change in certificates of deposit	23,550
Interest received	<u>4,223</u>
Net Cash Provided By Investing Activities	<u>27,773</u>
Net Change in Cash and Equivalents	27,597
Cash and Equivalents, Beginning of Period	<u>30,088</u>
Cash and Equivalent, End of Period	\$ <u><u>57,685</u></u>
Reconciliation of operating income to net cash	
provided by operating activities	
Operating income	\$ (35,641)
Adjustments to reconcile operating income	
to net cash provided by operating activities	
Depreciation and amortization	59,411
Changes in	
Accounts receivable	(1,330)
Prepaid expenses	(205)
Accrued interest receivable	128
Accounts payable	(1,136)
Accrued liabilities	(88)
Accrued interest payable	<u>(101)</u>
Net cash provided by operating activities	\$ <u><u>21,038</u></u>

The notes to the financial statements are an integral part of this statement.

RURAL WATER DISTRICT NO. 10

Leavenworth County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies

Organization

Rural Water District No. 10, Leavenworth County (the District) was organized under Kansas law and is accounted for as an enterprise fund using the accrual basis of accounting. The District's purpose and objective is to acquire water and water rights, to build and acquire pipelines and for the purpose of furnishing water for domestic, agriculture, and/or other purposes. The District provides services to patrons in Leavenworth County. Total benefit units at December 31, 2014 were 327.

GASB Statement No. 34

In June 1999, GASB issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The statement known as the "Reporting Model" statement, affects the way the District prepares and presents information.

GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments, including special purpose governments. The statement was developed to make annual reports easier to understand and more useful to the people who use governmental information to make decisions and includes:

Management's Discussion and Analysis

GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analysis overview of the District's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis the private sector provides in their annual reports.

Statement of Net Position or Balance Sheet

This statement is designated to display the financial position of the District. Districts report all capital assets, including infrastructure. The net assets of the District will be broken down into three categories 1) invested in capital assets, net of depreciation; 2) restricted (if applicable); and 3) unrestricted.

RURAL WATER DISTRICT NO. 10

Leavenworth County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (continued)

GASB Statement No. 34 (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting refers to when revenues, expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Measurement focus refers to what is being measured. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. The statement of cash flows provides information about how the District meets the cash flow needs of its activities.

GASB Statement No. 20

Under GASB Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, all proprietary funds continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, proprietary funds have the option of either choosing not to apply future FASB standards (including amendments of earlier pronouncements), or continuing to follow new FASB pronouncements (unless they conflict with GASB guidance). The District has chosen not to apply future FASB standards for proprietary funds.

Budget

The District prepares its budget for the fiscal year using the same basis of accounting as the financial statements. A comparison of actual to budget is not presented in the financial statements.

Cash and Cash Equivalents

For the purposes of the statement of cash flows the District defines cash and cash equivalents as demand deposits and certificates of deposit at banks with maturities of three months or less.

RURAL WATER DISTRICT NO. 10

Leavenworth County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (continued)

Certificates of Deposit

The certificates of deposit represent nonnegotiable certificates of deposit. The Certificates of deposit are recorded at cost because they are not affected by market rate changes.

Accounts Receivable

The District reads meters during the week of the 20th each month and the invoices are mailed out on the 1st of each month. Payments for water service are due the 5th day of the following month or will be subject to a late fee of \$10 The District considers all accounts collectable.

Property, Plant, and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Improvements and betterments to existing property and equipment are capitalized. Expenditures for maintenance and repair which do not extend the life of the applicable assets are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. The district does not have a formal capitalization policy. Depreciation expense totaled \$ 59,411 for the year ended December 31, 2014.

Benefit Units

Benefit units are rights that entitle the holder to water service. Benefit units are presently sold for \$ 6,000.

Aid in Construction

Aid in Construction represents contributions from the members for line extensions, and are included in the statement of activities

Income Taxes

The District is considered a tax-exempt entity and is not subject to income taxes at either the federal or state level. The District's payroll tax returns for the years ending 2014, 2013, and 2012 are subject to examination by the IRS, generally for three years after they were filed.

RURAL WATER DISTRICT NO. 10

Leavenworth County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (continued)

Net Position

The District's net position is classified as follows:

Invested in capital assets, net of accumulated depreciation – This represents the District's total investment in capital assets, net of accumulated depreciation.

Unrestricted net position – This includes resources derived from sales and services. These resources are used for transactions relating to providing sales and services and general operations of the District and may be used at the discretion of the governing board to meet current expense for any purpose.

Use of Estimates

The preparation of financial statements in compliance with generally accepted accounting principles requires managements to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – Deposits and Investments

Deposits

K.S.A. 9-1401 establishes the depositories which may be used by the district. The statute requires banks eligible to hold the district's funds have a main or branch bank in the county in which the district is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The district has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the district's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The district has no investment policy that would further limit its investment choices.

RURAL WATER DISTRICT NO. 10

Leavenworth County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – Deposits and Investments (continued)

Concentration of Credit Risk

State statutes place no limit on the amount the district may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the district's deposits may not be returned to it. State statutes require the district's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2014.

At December 31, 2014, the District's carrying amount of deposits, including certificates of deposit, was \$550,918, and the bank balance was \$558,311, of which \$558,311 was covered by FDIC insurance.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

NOTE 3 – Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from prior years and settlements have not exceeded coverage in the past three years. See Schedule of Insurance in Force for details of insurance.

RURAL WATER DISTRICT NO. 10

Leavenworth County, Kansas

NOTES TO FINANCIAL STATEMENTS**NOTE 6 –Property, Plant, and Equipment (continued)**

The following represents a roll-forward of property, plant, and equipment as of December 31, 2014:

	2014 Rollforward			
	Beginning Balance	Additions	Dispositions	Ending Balance
Water Systems	\$ 1,744,637	\$ 34,680	\$ -	\$ 1,779,317
Water Rights	28,735	-	-	28,735
	<u>\$ 1,773,372</u>	<u>\$ 34,680</u>	<u>\$ -</u>	<u>\$ 1,808,052</u>
Accumulated Depreciation	687,712	57,858	-	745,570
Accumulated Amortization	<u>20,194</u>	<u>1,553</u>	<u>-</u>	<u>21,747</u>
Book Value	<u>\$ 1,065,466</u>			<u>\$ 1,040,735</u>

Capitalization policies, depreciation methods, and estimated useful lives of capital assets are as follows:

	Capitalization Policy	Depreciation Method	Estimated Useful Life
Buildings	5,000	Straight Line	20 - 40 years
Equipment	5,000	Straight Line	3 - 20 years
Water systems	5,000	Straight Line	10 - 20 years
Furniture and Fixtures	5,000	Straight Line	7-10 years

RURAL WATER DISTRICT NO. 10

Leavenworth County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 7 – Long Term Debt

In 1987, the District took out a loan with the Farmers Home Administration for \$143,000. The note is currently held by Berkadeia and matures in June of 2016. The note has annual payments in the amounts of \$8,405 and an interest rate of 5%. The loan had a remaining balance of \$13,877 at December 31, 2014.

Maturities of long-term debt subsequent to December 31, 2014 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 7,711	\$ 694	\$ 8,405
2016	<u>6,166</u>	<u>308</u>	<u>6,474</u>
	<u>\$ 13,877</u>	<u>\$ 1,002</u>	<u>\$ 14,879</u>

NOTE 8 – Related Party Transactions

The District rents office space from an employee of the District. The District pays \$100 per month for the space, totaling \$1,200 in 2014.

NOTE 9 – Compensated Absences

The District provides sick and vacation leave to its employees. The amounts are being expensed when sick and vacation leave is taken.

NOTE 10 – Prior Period Adjustment

Adjustment has been made to the Net Position – Beginning of year for the 2014 year due to the understatement of prior period depreciation and amortization. Beginning Net Position for 2014 was reduced by \$ 25,005.

NOTE 11 – Subsequent Events Review

Subsequent events for management's review have been evaluated through March 15, 2015. This is the date the financial statements were available to be issued.

LEAVENWORTH COUNTY RURAL WATER DISTRICT NO. 10

Schedule of Insurance in Force
As of December 31, 2014

Property Covered	Coverage	Expires
Commercial property:		5/27/2015
Water tower 1	186,000	
Water tower 2	186,000	
Commercial General Liability:		5/27/2015
Aggregate limit	1,000,000	
Each occurrence limit	1,000,000	
Commercial Auto:		5/27/2015
Liability insurance (per loss)	300,000	
Directors' and Officers' Liability:		6/30/2015
Aggregate limit	100,000	
Retentions	1,000	
Bond		9/30/2015
Right-of-Way licenses	10,000	
Bodily injury limit	500,000	
Surety		6/30/2015
Aggregate limit	100,000	

The notes to the financial statements are an integral part of this statement.